SBI Research

Prelude to MPC Meeting: Dec 3 to 5, 2025

Broad basing growth, sans any rate cut, may necessitate ushering in “neutral regime” tantamount to ‘calibrated easing’ by targeting yields and liquidity management simultaneously…

Issue # 32, FY26 Date: 30 November-2025

December Policy Meet….. 1/ 2

- A broader trend emerging now from rate actions of Central Banks world over is that **monetary policy has entered a phase of pause, with differences across geographies**….**Number of rate decisions, while still dominated by cut, are far less in count… However, Equity markets globally are veering towards irrationality even as NIFTY 500 in comparison looks better represented ...**

- **Expectations built till a few days back of a shallow rate cut of 25 bps appear to have faded as finer readings of the strong Q2 growth print and the evolving playbook make the choice tilted in favour of pause in December policy… But it is important to continue with affirmative actions outside policy space.. Important to change the market perception too**… as the G-Sec market is increasingly dislocated, with the spread between the overnight repo rate and the 10-year G-Sec yield widening from 40–50 bps to 100-110 bps, despite a cumulative 100 bps rate cut and CRR reductions disrupting monetary policy transmission

December Policy Meet….. 2/ 2

- **RBI should make a communication with the market with a clear distinction between temporary liquidity injection/ withdrawal and permanent liquidity injection/ withdrawal when market conditions or sentiments warrant such… This will ensure coexistence of short-term liquidity measures synchronized with long term liquidity measures without altering the basic structure... This will also usher in an efficient market with less cacophony and more rationality.**

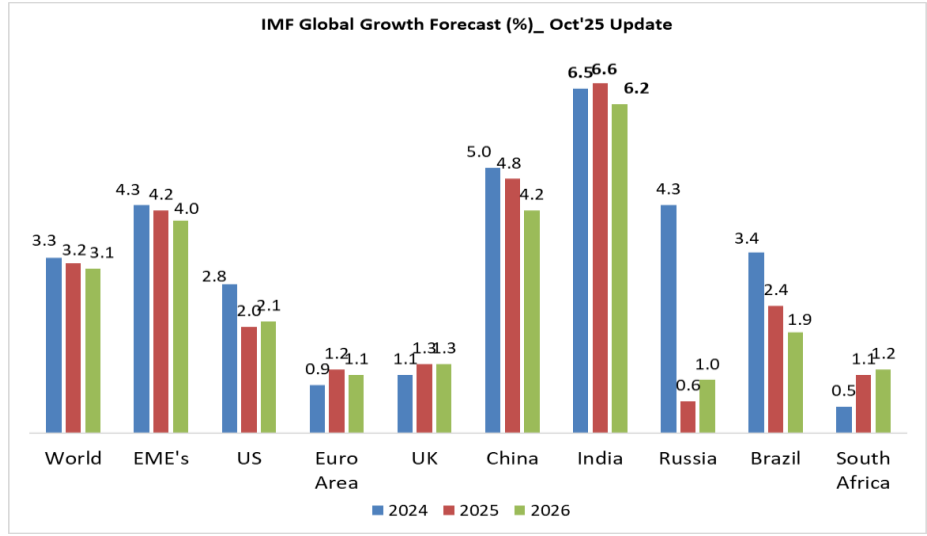
  - RBI may have to ensure **"calibrated easing" within "neutral stance"** through liquidity measures….to ensure a sobering impact on yields
  - Injection of durable liquidity operations like OMO or any other tools in line with Revised Liquidity Management Framework. Publication of OMO Calendar across the curve for liquidity management and rate transmission will be a fillip. To ensure full transmission of 100 bps rate cut, OMO purchase auctions may be conducted to maintain durable liquidity at 2-2.5 % of NDTL. **To normalize spread between G-Sec & SDL's which has increased SDL's may be included in the Durable Liquidity operations**
  - To support market sentiment and anchor long-term yields, **RBI may consider a liquidity-neutral Operation Twist** in Government Securities (G-Secs) and State Development Loans (SDLs) to reduce volatility and restore stability in the yield curve
  - Yields are elevated in G-sec / SDL especially in the longer end of the yield curve due to demand and supply concern. **In order to reduce long term bond yields RBI may look at state issuances from duration perspective**
  - **Introduction of uniform pricing in G-Sec/SDL auctions may be thought of to reduce volatility**

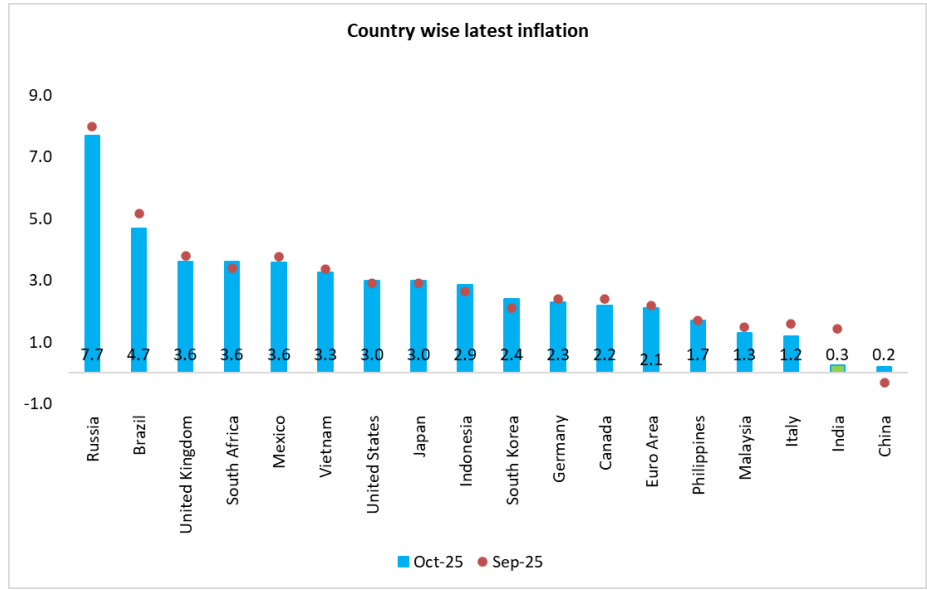
Global Developments reveal contrarian trends in debt and equity markets…

Global economy moderating due trade wars, geopolitics and uncertainty

- **Global GDP is forecasted to slow by 10 bps as per IMF to 3.2% in 2025 on account of rising trade protectionism and uncertainty**
  - ✓ The US growth is projected flat at 2.1%
  - ✓ The growth in developing economies is also projected to slow with China expected to grow at 4.8% and India at 6.6%

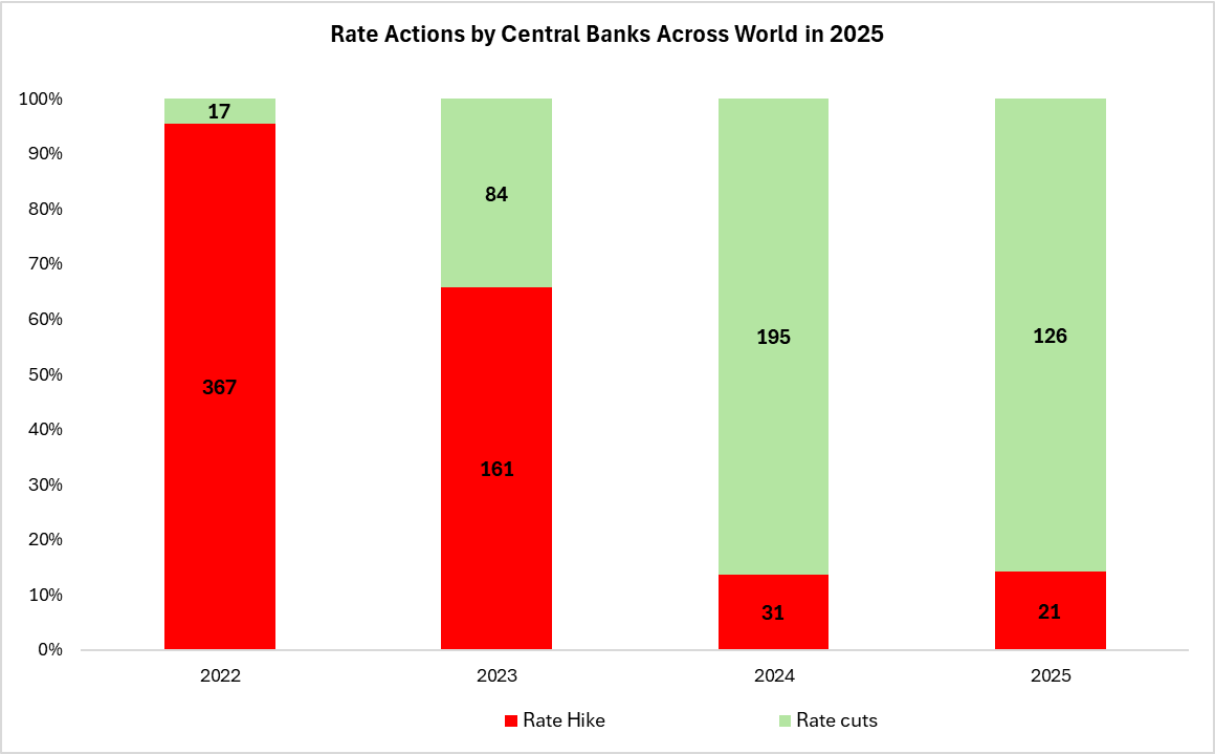
- **Inflation is projected to continue to decline globally**
  - ✓ Inflation to stay above target in the United States—with risks tilted to the upside—and subdued elsewhere
  - ✓ Inflation in emerging economies is expected to moderate



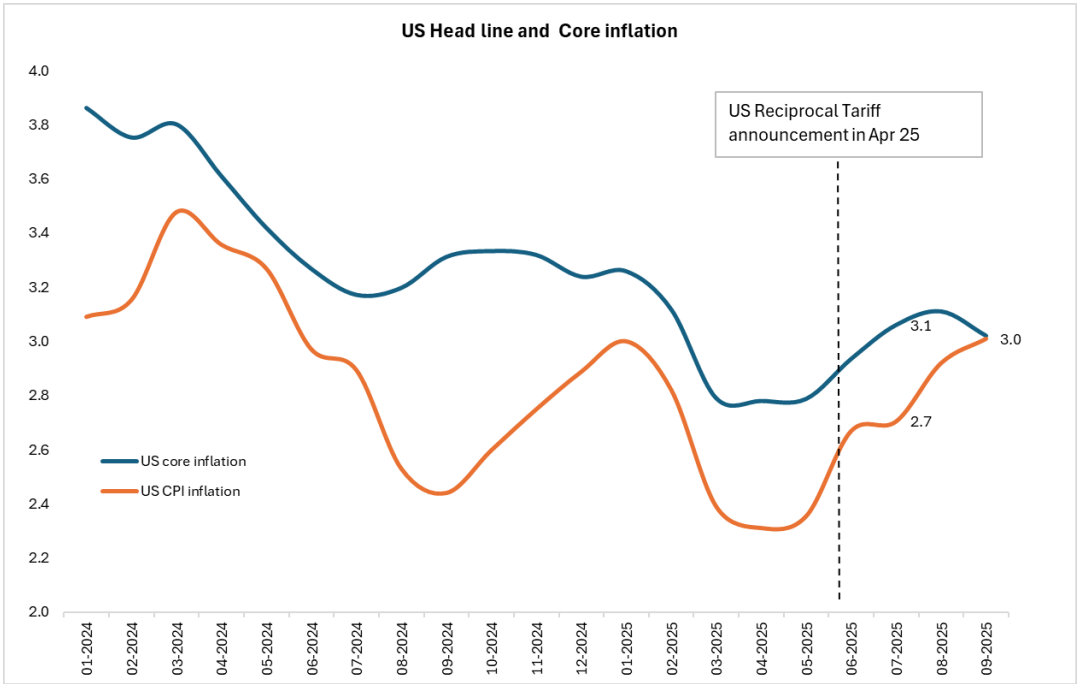


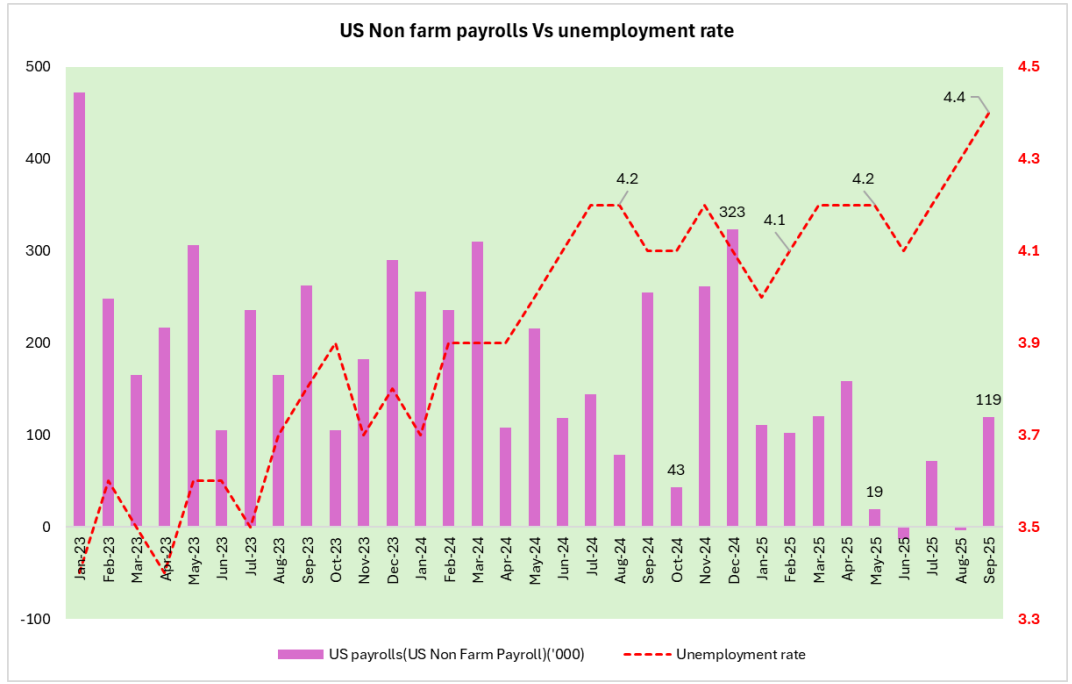
Broader rate cut trends show dominating preference for a pause

- Rate decisions measured as cut or hike show declining trend
- **Number of rate decisions while still dominated by cuts are far less in count in 2025 than in 2024**
- **A broader trend is that monetary policy has entered a phase of pause with differences across geographies**



Federal Reserve rate outlook, market expects cut data inconclusive

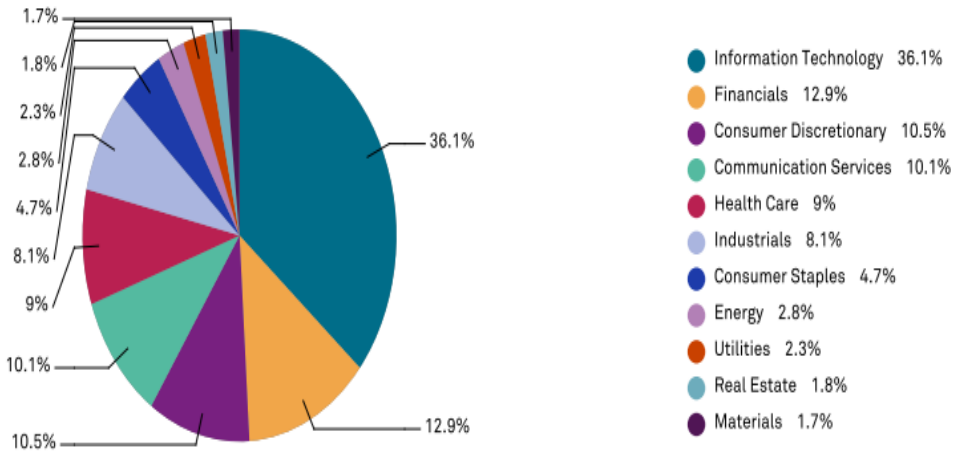




- The US CPI inflation after staying close to target has increased to 3%
- The unemployment rate remained flat at 4.2% in 2025 has increased markedly with US payrolls drying out
- A higher unemployment and moderating core inflation suggest that room for rate cut is there which also factors in market expectations
- However available data suggest that rate cut is a close call as inflation is clearly rising

Concentration risk on the rise in S&P 500…. The AI led race seems an imperfect replica of 'railroad mania'

S&P 500 SECTORAL WEIGHT (%)



Top 10

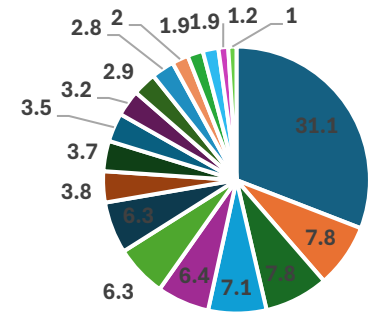
NVIDIA	7.0%
Apple	6.7%
Alphabet	6.3%
Microsoft	5.9%
Amazon	4.0%
Broadcom	3.1%
Meta	2.6%
Tesla	2.3%
Berkshire H	1.8%

~40% weightage lopsidedly occupied by the Top 10 Guns in S&P 500, with 9 being the Apostles of an ever-burgeoning tech sector, much touted edifices of present growth model look questionable sure, if not seemingly crumbling… while the index is at an all-time high and market monks are batting for 8000 level for 2026 (CY), the evolving signals from the non-tech, non-financial sector are neither upbeat, nor reassuring!

Even as rising circularity amidst tech firms through investments-order matrix makes valuations challenging, the gargantuan capital being arranged through a mix of funding, including debt route and government stakes, when juxtaposed to foreseeable revenues or cashflows…hinting at choppy waters ahead for investors…..

The NIFTY 500, in comparison, looks better represented through a wide variety of firms from diverse sectors whose cumulative weightage together comes at ~25%, cushioning from likely build up of sectoral concentration risk

NIFTY 500 Sectoral weight (%)



Top 10

RIL	5.11%
HDFC BANK LTD	3.75%
BHARTI AIRTEL	3.11%
TCS	2.74%
ICICI BANK	2.41%
SBI	2.17%
INFOSYS	1.57%
BAJAJ FIN	1.55%
HUL	1.39%
LIC	1.38%

Sectors	weight (%)
Financial Services	31.1
Information Technology	7.8
Oil, Gas & Consumables	7.8
Automobile and Auto Components	7.1
FMCG	6.4
Capital Goods	6.3
Healthcare	6.3
Consumer Services	3.8
Metals & Mining	3.7
Telecommunication	3.5
Power	3.2
Construction	2.9
Consumer Durables	2.8
Construction Materials	2
Chemicals	1.9
Services	1.9
Realty	1.2
Others	1

S&P data as on close of 28 Nov 2025
Nifty 500 figures as on oct 31 2025
image: S&P, NSE, SBI Research

Elements of Irrationality are a natural given Expensive / Overvalued DNA of major markets of late…

		Country	P/E Ratio	P/E Evaluation 5 Years	10 Years	20 Years
	ENZL	New Zealand	30.35	Fair	Fair	Overvalued
	VTI	United States	27.94	Expensive	Expensive	Expensive
	INDA	India	24.96	Overvalued	Overvalued	Expensive
	EWL	Switzerland	22.49	Overvalued	Expensive	Expensive
	EWA	Australia	20.63	Overvalued	Expensive	Expensive
	EWD	Sweden	20.57	Expensive	Expensive	Expensive
	VNM	Vietnam	20.40	Overvalued	-	-
	EWC	Canada	20.40	Expensive	Expensive	Expensive
	EWT	Taiwan	19.80	Overvalued	Expensive	Expensive
	EWU	United Kingdom	19.22	Expensive	Expensive	Expensive
	EWQ	France	19.18	Overvalued	Expensive	Expensive
	EWN	Netherlands	19.15	Fair	Overvalued	Expensive
	EWG	Germany	18.67	Expensive	Expensive	Expensive
	EWK	Belgium	18.60	Fair	Fair	Overvalued
	EWH	Hong Kong	18.00	Expensive	Expensive	Expensive
	EWJ	Japan	17.57	Overvalued	Expensive	Overvalued
	ARGT	Argentina	16.54	Expensive	Expensive	Expensive
	EWS	Singapore	16.22	Expensive	Expensive	Expensive
	ECH	Chile	15.04	Overvalued	Fair	Fair
	EIRL	Ireland	14.94	Fair	Fair	Fair
	EWM	Malaysia	14.91	Fair	Fair	Fair
	EZA	South Africa	14.91	Expensive	Overvalued	Overvalued
	EDEN	Denmark	14.89	Fair	Undervalued	Fair
	EIS	Israel	14.83	Overvalued	Expensive	Expensive
	THD	Thailand	14.70	Undervalued	Undervalued	Fair
	EWY	South Korea	14.36	Expensive	Expensive	Expensive
	NORW	Norway	14.29	Overvalued	Fair	Overvalued
	EWO	Austria	14.21	Expensive	Expensive	Expensive
	EPU	Perù	14.06	Overvalued	Fair	Overvalued
	EWP	Spain	13.89	Overvalued	Overvalued	Overvalued
	TUR	Turkey	13.33	Expensive	Expensive	Expensive
	EWI	Italy	13.28	Overvalued	Overvalued	Overvalued
	EWW	Mexico	12.99	Fair	Fair	Fair
	EIDO	Indonesia	12.83	Fair	Undervalued	Fair
	EPOL	Poland	12.47	Overvalued	Overvalued	Fair
	QAT	Qatar	11.90	Fair	-	-
	GREK	Greece	11.74	Overvalued	Fair	Fair
	EWZ	Brazil	10.84	Expensive	Fair	Fair
	FXI	China	10.65	Fair	Fair	Fair
	GXG	Colombia	10.12	Overvalued	Fair	Fair
	EPHE	Philippines	9.47	Undervalued	Cheap	Cheap

With excessive market swings expected on account of concerns towards sustainability of earnings and ensuing valuations projected that even fear gauges like VIX may not be able to comprehend in full, P/E multiples along historical values becomes the bedrock for global flows… While high P/E may at times leave room for future growth opportunities and low P/E may denote structural imbalances in vogue, continuing expensive valuations from historical perspectives more often results in corrections for broader indices, in particular portfolio led short-to-medium term hot money that shifts to relatively attractive destinations… Substantially high Shiller PE (CAPE) ratio, as also elevated BEER ratio too signal some **"elements of irrationality"**

image: worldperatio, SBI Research

Prelude to December Policy:
Important to continue with decisions beyond direct rate actions but towards affirmative actions outside policy space

To begin with…States Devolution from Centre continues to be buoyant…..contrary to market perceptions….

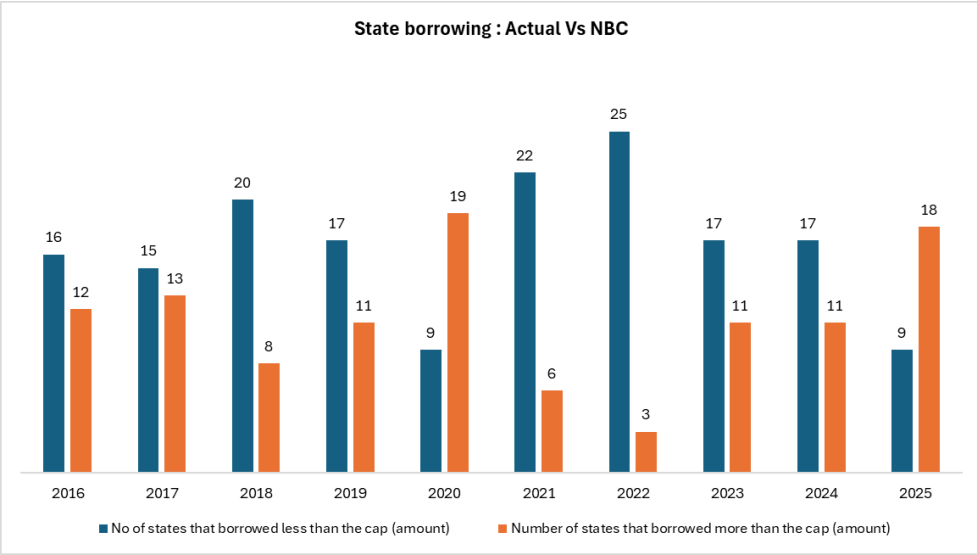
- States continue to witness higher share of devolution as well as Grants-in-Aid. The overall share of states' including devolution plus grants in aid has witnessed a y-o-y growth of 10% in FY26 when compared to FY25
- **Most states have witnessed a rise of >10% or more in Devolution and Grants in H1 FY26 barring Bihar which has witnessed a decline**
- **In fact, it is completely misleading to conclude that states are borrowing more because of lower devolution**

States Tax revenue at a glance(Rs Cr)			
	FY25 RE	FY26 (BE)	YoY%
States Own Tax Revenue	2138085	2441000	14.2
Of which SGST	926059	1066943	15.2
SGST Share in SOTR	43	44	-
Share in Central Taxes	1271556	1404921	10.5
Grants in Aid	613508	640615	4.4
Grants + Devolution	1885064	2045535	8.5
Source: States budget documents and CAG report on monthly states account, excluding states Goa, Mizoram and Sikkim			

States Tax revenue in H1 FY26(Rs Cr)			
States	SOTR	Share in Central	Grants + Devolution
	H1 FY26/ H1 FY25 (YoY%)	H1 FY26/ H1 FY25 (YoY%)	H1 FY26/ H1 FY25 (YoY%)
Andhra Pradesh	9.5	16.8	13.6
Bihar	-6.5	-1.6	-1.3
Chhattisgarh	4.4	16.0	14.3
Gujarat	2.6	16.0	12.9
Haryana	10.4	1.0	0.8
Himachal Pradesh	10.5	1.0	0.5
Jharkhand	39.1	1.0	0.9
Karnataka	10.3	16.1	12.9
Kerala	9.0	16.4	13.5
Madhya Pradesh	8.9	1.0	0.8
Maharashtra	9.1	16.0	11.3
Odisha	5.2	16.0	13.0
Punjab	8.8	16.0	13.3
Rajasthan	7.7	16.3	14.2
Tamil Nadu	9.2	16.0	11.4
Telangana	2.8	14.5	12.3
Uttar Pradesh	10.1	17.4	15.1
Uttarakhand	5.1	16.0	9.4
West Bengal	9.1	16.0	14.3
Total 25 States	**8.4**	**12.6**	**10.0**
Source: States budget documents and CAG Monthly report on states Account,Some of the major states, Share in central tax excludes net proceeding from GST, which is included in GST head under Tax revenue in CAG report			

….State borrowing have been always lower than budgeted borrowings as the 3% target is sacrosanct

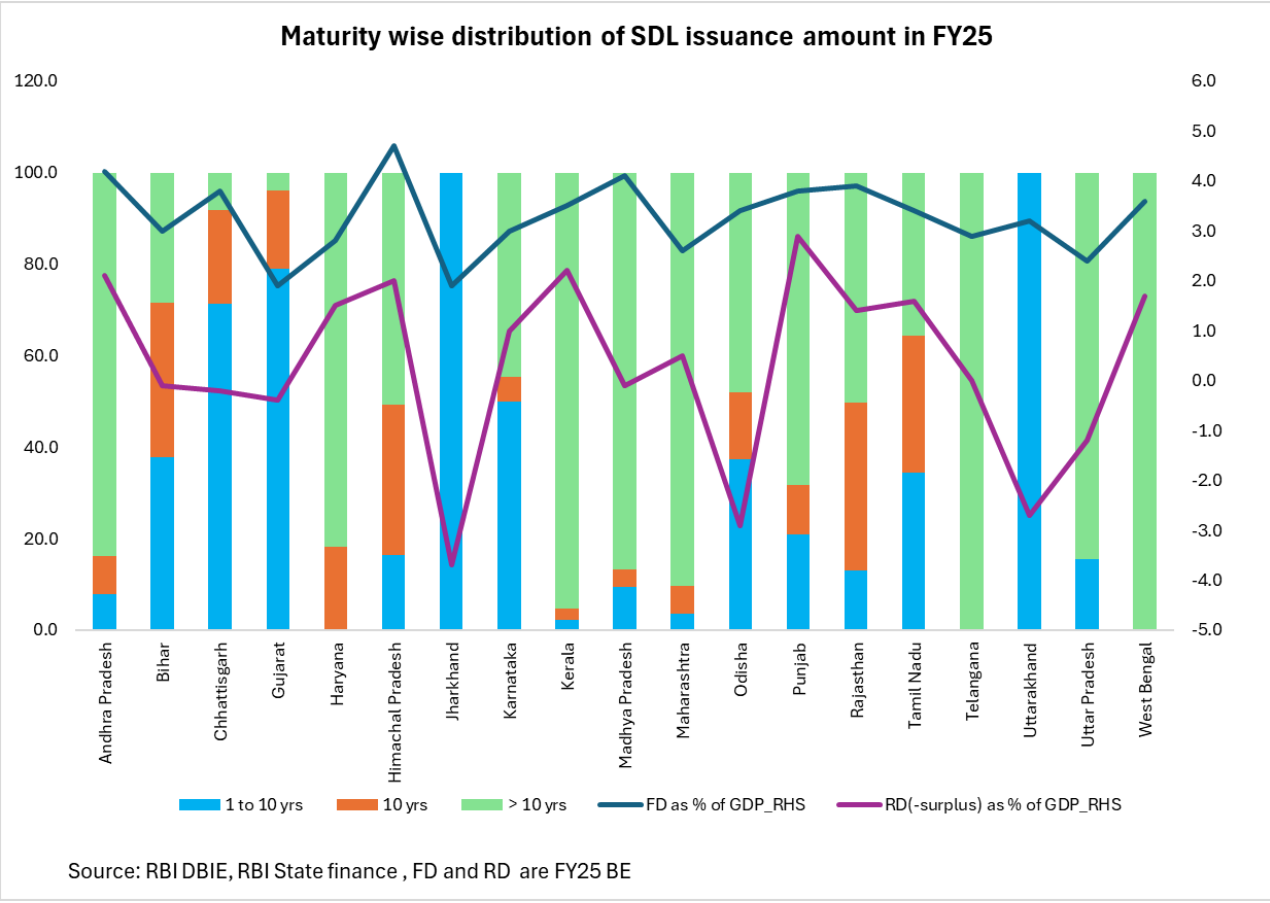
- Assessed borrowing cap is always estimated as the % of recommended borrowing limit to GSDP / 3% given during various FC periods
- State wise Fiscal Deficit is considered as Actual Borrowing
- Additional borrowing is calculated as the actual GFD – assessed borrowing cap(-ve means state borrowed less than allowed cap)
- We find that most of the states have borrowed less than the cap amount till 2024 except the pandemic year. However, in 2025, number of states that have borrowed more than the Cap is higher. This clearly implies that Centre's devolution is never a major reason behind states' borrowing.. It is the quality of expenditure that is of paramount importance



State borrowing in FY26			
States	Notified amount till 25 Nov	Actual gross borrowing Till date	Actual As % of notified
Andhra Pradesh	40150	49072.0	122%
Bihar	34000	34500.0	101%
Chhattisgarh	13000	9470.0	73%
Goa	2550	1100.0	43%
Gujarat	43000	26500.0	62%
Haryana	27000	26500.0	98%
Himachal Pradesh	6300	6919.0	110%
Jharkhand	2000	2000.0	100%
Karnataka	12000	0.0	0%
Kerala	30000	32488.0	108%
Madhya Pradesh	39800	43076.5	108%
Maharashtra	138199	89000.0	64%
Odisha	18000	7000.0	39%
Punjab	28300	29749.8	105%
Rajasthan	50000	54300.0	109%
Tamil Nadu	72000	72300.0	100%
Telangana	31600	60000.0	190%
Uttar Pradesh	50000	23500.0	47%
Uttarakhand	8500	5500.0	65%
West Bengal	63000	27500.0	44%
Grand Total	**739270**	**623629.4**	**84%**

Within the same, HOWEVER, Divergence amongst States is evident that muddles the evolving landscape…..

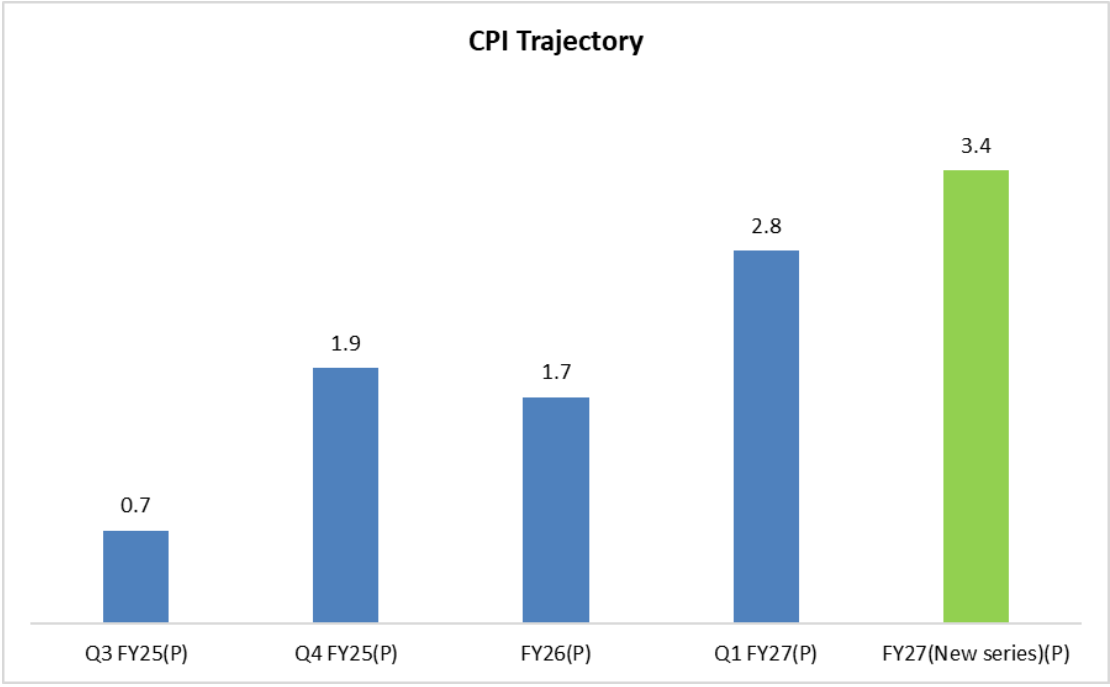
- During FY25, issuance of Securities/Duration chased by different states further complicates the narrative as each State seems to be embarking upon a pathway that, independent of common profile of debt stock at best, seems to be dissipative to desired debt profile, simultaneously at odds with market's wisdom even as debt markets could be facing stiff competition from equities and alternative/ private assets going ahead



December Policy has now transitioned to status-quo perhaps towards stable for longer…

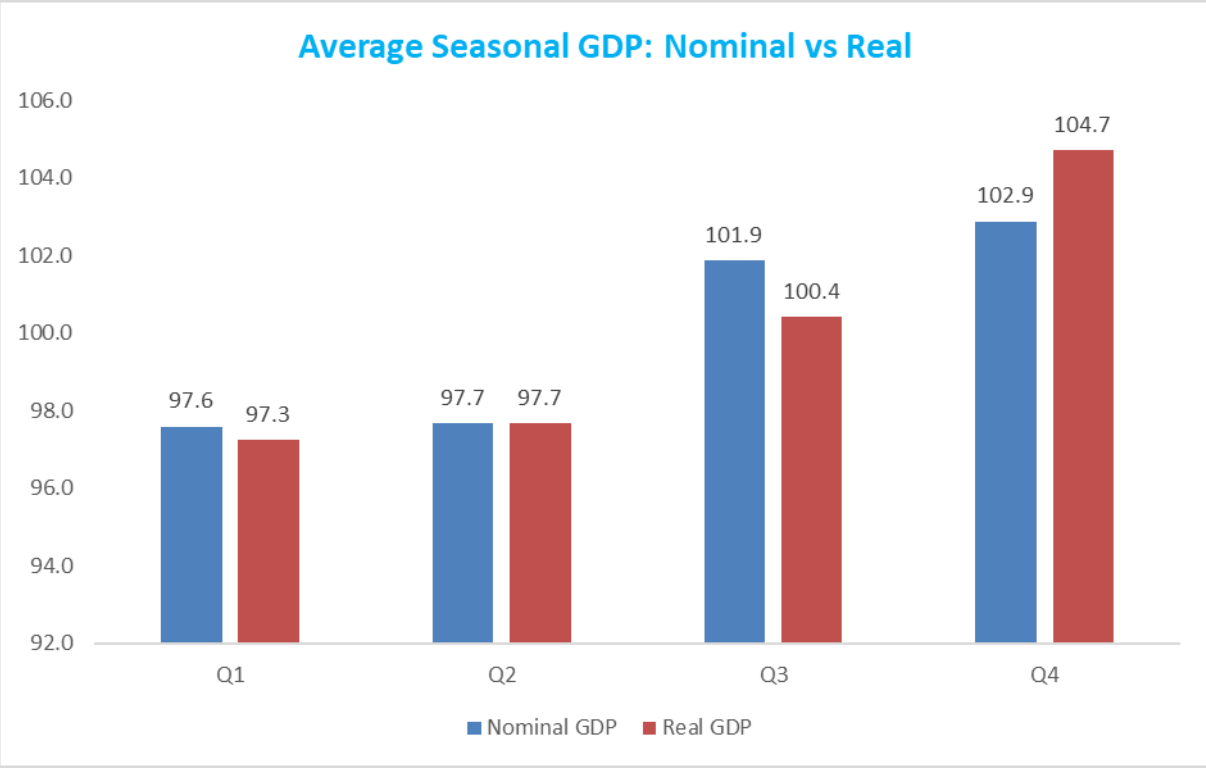
CPI FY27 numbers are now tracking ~3.5% or less..

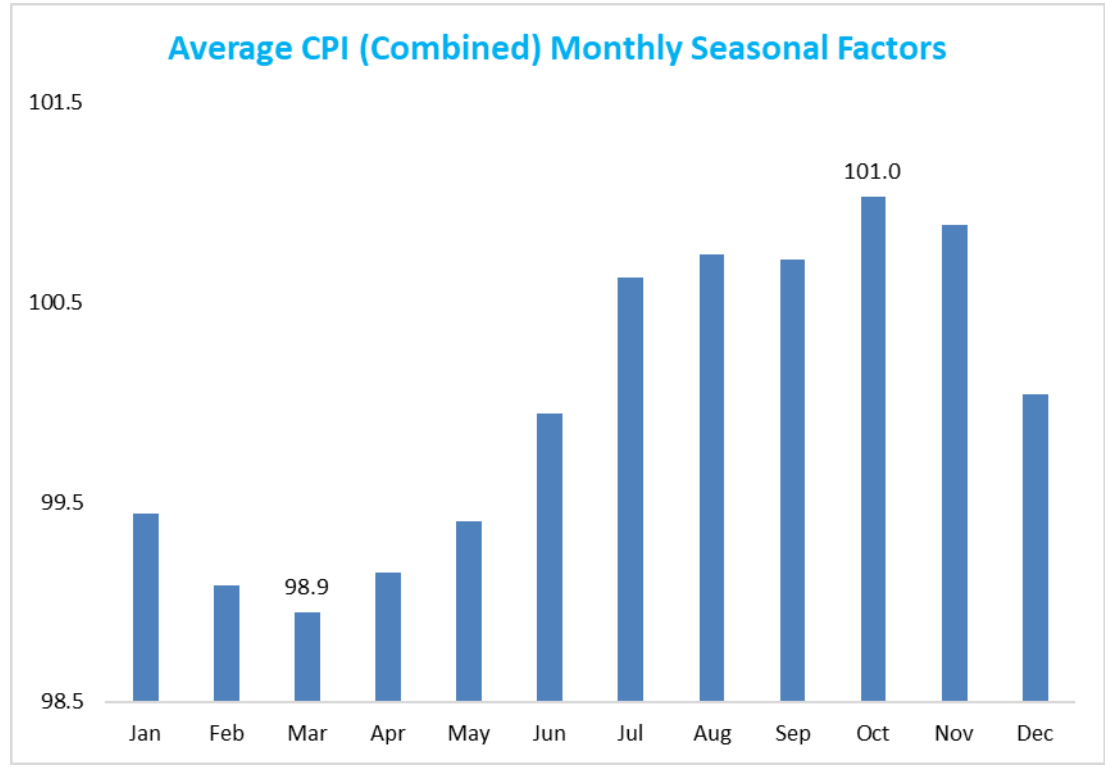
- While CPI inflation increased in case of personal care and effects owing to higher gold prices at 57.8%, excluding gold from headline CPI turns the print negative at -0.57% yoy.
- We believe, given the current trend, CPI excluding gold would remain negative even in the next two months. Meanwhile, core CPI didn't change much and came at 4.33% in October compared to 4.36% in September, with gold price playing spoilsport as Core CPI excluding gold comes at 2.6%
- **Interestingly, Q1FY27 inflation forecast is currently trending at below 3% as per SBI estimates**



Seasonality of Macro-economic Series show that the CPI has continued to decline and GDP has peaked contrary to seasonal trends…Thus current decline in CPI & increase in GDP seems to getting entrenched

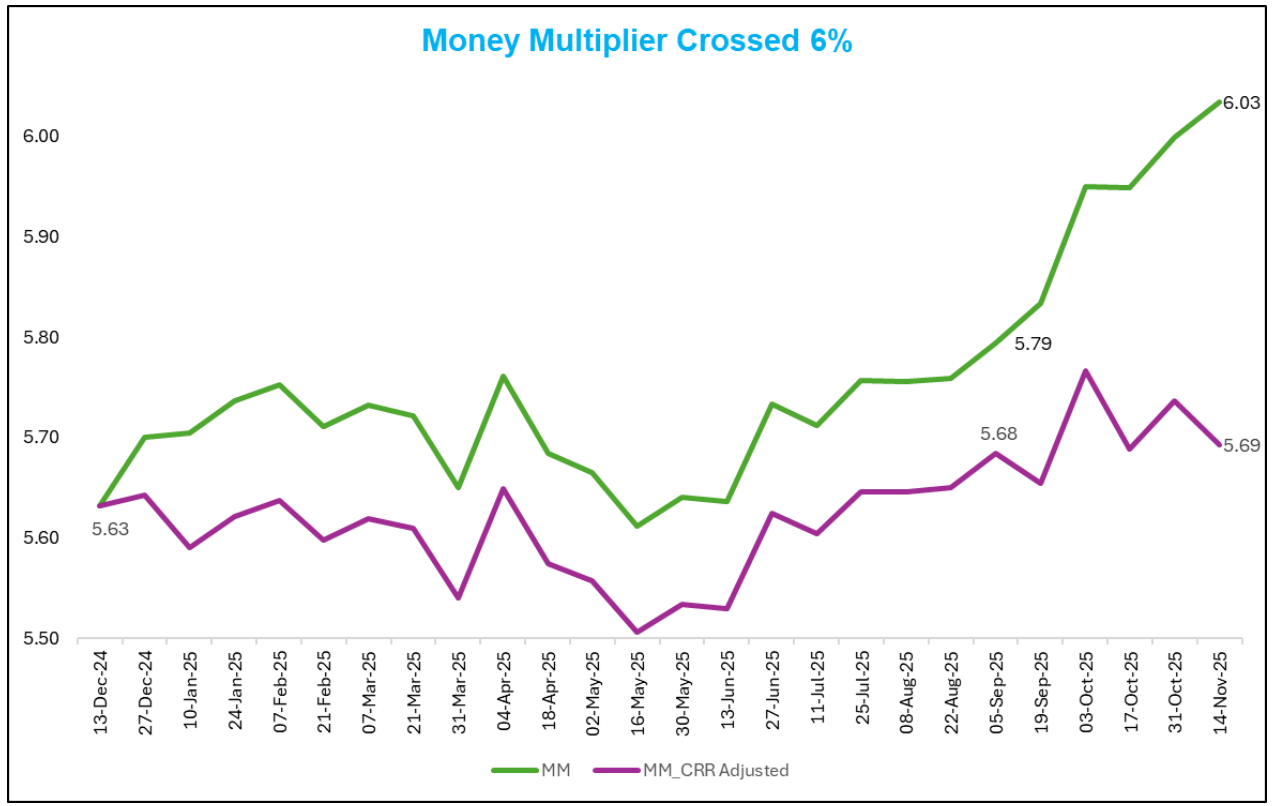
- RBI in its November 2025 Monthly Bulletin has published an article on *"Seasonality in Key Economic Indicators of India", by Ghosh S., Misra S., Sanyal A. and Singh S., which studies the seasonal patterns of macro-economic indicators, by analyzing 78-monthly indicators and 25*-quarterly indicators. The study confirmed that seasonality in real GDP is influenced by government expenditure and agriculture demonstrated the highest seasonal variations
- Continuing with such an exercise, we tested seasonal factor in 2 variables, CPI and GDP for the data period 2011-2026 (latest available) by using X-13 ARIMA-SEATS. The results found that CPI attend seasonal peak in October and floor in March. While GDP confirms that both Nominal and real series seasonally peak in Q4





Digitization and CRR cut has ensured that even though Reserve Money growth has stagnated, Money Multiplier Increased with CRR Cut and low Currency /deposit ratio…This has pushed up M3 growth

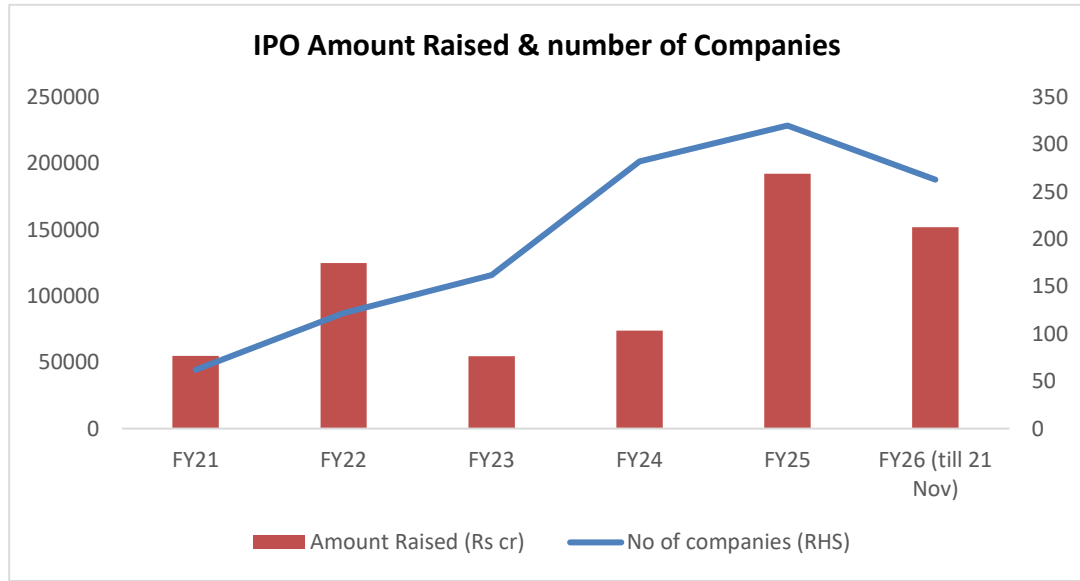
- Since December 2024, RBI has reduced CRR by a total of 150 bps in 2-instance (50 bps in Dec'24 policy and 100 bps in June'25 policy) in phased manner (6 trenches of 25 bps each)
- With the June 2025 CRR cut of 100 bps, wef of 25 bps cut in each trench starting from 06 Sep, 04 Oct, 01 Nov and 29 Nov **have reduced Reserve Money (M0) growth to 1.8% YoY. However, the CRR adjusted growth stood at 7.8%**



Corporates raising significant amount through IPO/FPOs

- Amount raised through IPO/FPOs has been Rs 6.5 lakh crore since FY21, with listing of more than 1200 companies. Of this on an average more than 60% is through Offer For Sale (OFS)
- Fund raising through IPOs/FPOs increased significantly to Rs 1.9 lakh crore in FY25 and in FY26 it is already Rs 1.5 lakh crore (till 21 Nov) with more than 250 companies listed
- Finance companies raised maximum amount between FY21-FY26 (Nov), followed by automobile, e-commerce/app-based aggregator, IT-software and insurance companies

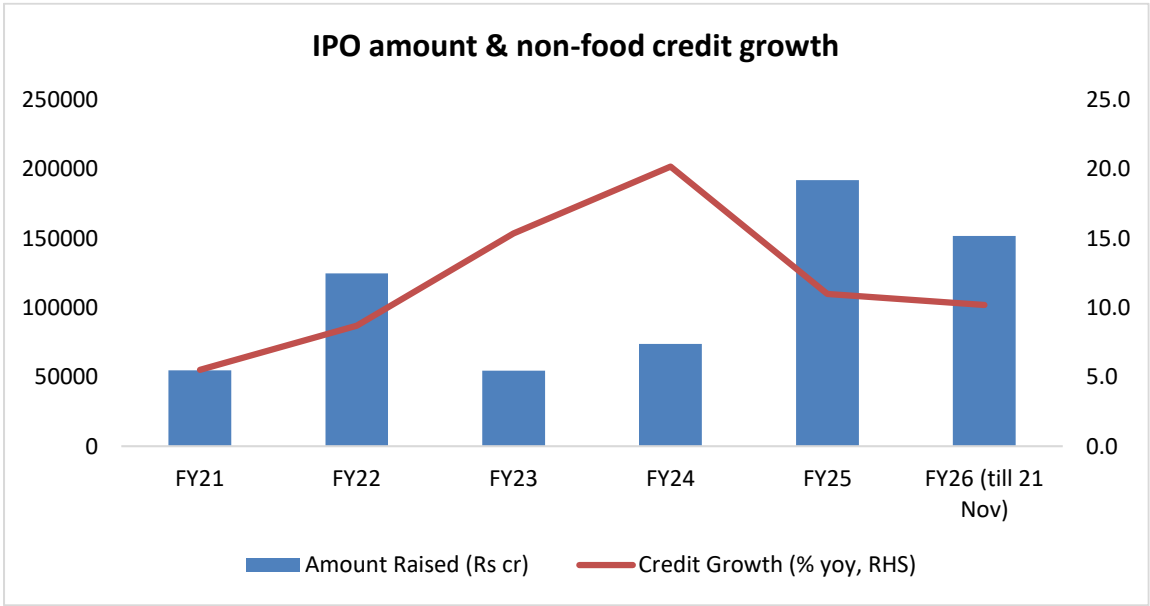
Sector wise Amount raised through IPOs during FY21-FY26 (till Nov) - Top 15		
Sectors	**Amount Raised (Rs Crore)**	**Number of IPOs**
Finance	65029	34
Automobile	55948	32
E-Commerce/App based Aggregator	51677	29
IT - Software	37111	88
Insurance	34290	5
Pharmaceuticals	31244	46
Telecom-Service	23094	3
FMCG	22143	47
Retail	21961	30
Miscellaneous	21588	90
Healthcare	21114	40
Banks	20163	9
Consumer Durables	16612	25
Infrastructure Developers & Operators	16308	65
Capital Goods - Electrical Equipment	15978	35
Source: SBI Research, Cline		



*This is excluding QIP which amounted to Rs 1.4 lakh crore in FY25 and Rs 50,000 crore in H1 FY26.

Higher IPO amount resulted in low credit offtake?

- Though there is no one-to-one relationship between amount raised through IPOs and credit offtake. However, historical data shows that years with higher IPO amount is associated with low credit growth. The two are modestly negatively correlated (r=-0.22)
- Sector wise analysis reveals that certain sectors as finance, automobile, pharmaceuticals, telecom, consumer durables and infrastructure witnessed lower credit growth during the year with higher fund raising through IPO in that sector
- **But increased working capital utilization by corporates credit growth is likely to rebound in coming quarters…RBI should therefore focus on proactive liquidity management. This could be the continued focus of RBI policy**



Liquidity in surplus mode, though reduction in 2nd half of November

- After huge swings in liquidity in October, November witnessed continued liquidity surplus which however reduced from an average of Rs 2.2 lakh crore in the first half to Rs 1.5 lakh crore post that. The current surplus as given by Net LAF stands at Rs 1.15 lakh crore
- Average Government surplus cash balances increased from Rs 1.2 lakh crore in the first half of November to Rs 1.7 lakh crore after that
- RBI continues to intervene through VRRR and VRR auctions
- **RBI should make a communication with the market with a clear distinction between temporary liquidity injection/ withdrawal and permanent liquidity injection/ withdrawal when market conditions or sentiments warrant such… This will ensure coexistence of short-term liquidity measures synchronized with long term liquidity measures without altering the basic structure... This will also usher in an efficient market with less cacophony and more rationality.**

Liquidity injection/absorption by RBI				
Auction type	**Tenor (Days)**	**Notified Amt(Rs lakh cr)**	**Amt Accepted (Rs lakh cr)**	**WAR %**
VRRR auctions	1	2.25	1.58	5.49
	2 to 7 days	10.5	7.4238	
	7 days+	32.5	12.8	
	Total	**45.25**	**21.8**	
VRR auctions	1	14.55	8.08	5.52
	2 to 7 days	9.75	5.066	
	Total	**24.3**	**13.1**	
Source: RBI Press release				

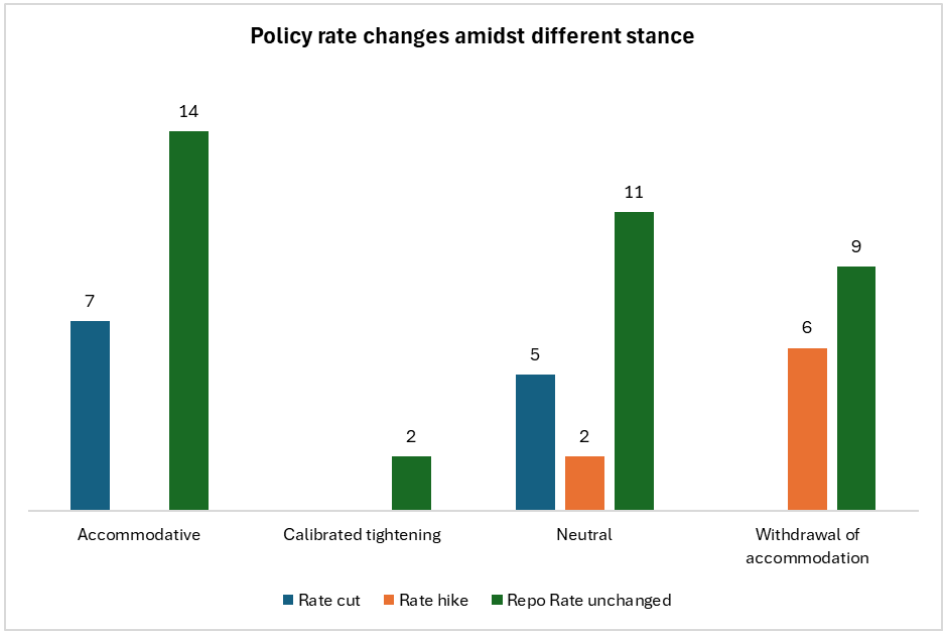
Average outstanding Liquidity Position (Rs lakh crore)		
Indicator	**FY26 Average**	**27.11.2025**
Total Repo Outstanding	0.27	0.16
Reverse Repo Total	0.85	0.00
SDF	1.81	1.51
Net LAF (-absorption)	-2.02	-1.27
Government Cash Balance *	2.26	2.15
Net durable liquidity [surplus (-)]**	-4.26	-3.29
Source: SBI Research, RBI,* estimated from previous fortnight core liquidity, **fortnight outstanding		

“Calibrated Easing” should be embedded in “Neutral stance” …through proactive liquidity management….

- Historically, repo rate was cut 5 times with a Neutral stance compared to 7 times with Accommodative stance. Furthermore, during neutral stance repo rate has been unchanged 11 times while it has been unchanged 14 times under accommodative stance

- **Historically, the probability of rate cut in a neutral stance is low (~27%)**

- **Therefore, RBI may have to ensure “calibrated easing” within “neutral stance” through liquidity measures….so as to ensure a sobering impact on yields**



MPC Stance and Rate Decision (bps)									
Stance	(-)25	(-)35	(-)40	(-)50	(-)75	(+)25	(+)35	(+)40	(+)50
Accommodative	4	1	1		1				
Calibrated Tightening									
Neutral	4			1		2			
withdrawal of accommodation						1	1	1	3

Suggestions of Proactive Liquidity Management…..

Open Market Operations (OMO) in both G-Sec and SDL:

- Injection of durable liquidity operations like OMO or any other tools in line with Revised Liquidity Management Framework. Publication of OMO Calendar across the curve for liquidity management and rate transmission will be a fillip. To ensure full transmission of 100 bps rate cut, OMO purchase auctions may be conducted to maintain durable liquidity at 2-2.5 % of NDTL. To normalize spread between G-Sec & SDL's which has increased SDL's may be included in the Durable Liquidity operations

Disruption in G-Sec Yield curve: While the rate transmission has more or less sufficient in deposit/advances but not in all 3 segments of bond market. he G-Sec market is increasingly dislocated, with the spread between the overnight repo rate and the 10-year G-Sec yield widening from 40–50 bps to 100-110 bps, despite a cumulative 100 bps rate cut and CRR reductions disrupting monetary policy transmission

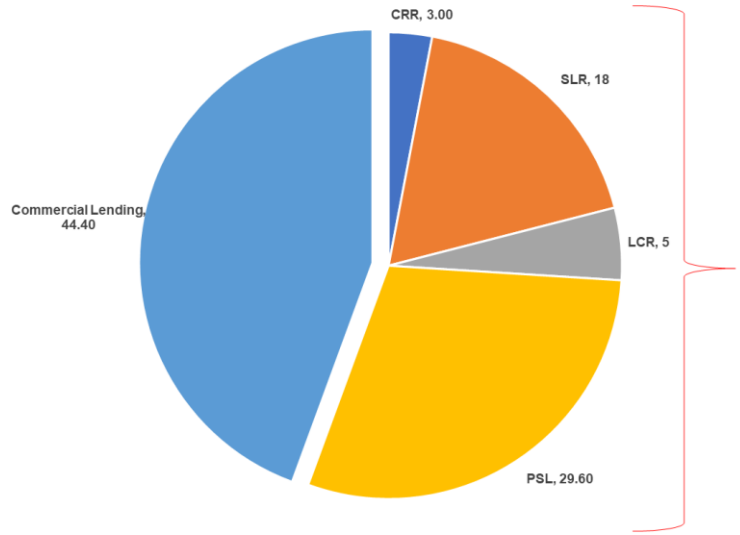
Suggestions

- **Operation Twist**: To support market sentiment and anchor long-term yields, RBI may consider a liquidity-neutral Operation Twist in Government Securities (G-Secs) and State Development Loans (SDLs) to reduce volatility and restore stability in the yield curve.
- **Reduction in overall duration of the State Government Securities**: Yields are elevated in G-sec / SDL especially in the longer end of the yield curve due to demand and supply concern. In order to reduce long term bond yields RBI may look at state issuances from duration perspective
- **Uniform yield auction:** Introduction of uniform pricing in G-Sec/SDL auctions may be thought of to reduce volatility

Not much latitude today left with banks for transmission of policy rates further…242.2 crores of depositor account vis-à-vis 37.1 crores credit accounts

- Following RBI's 100 bps cumulative reduction in repo rate since Feb'2025, banks have adjusted their lending and deposit rates downwards in H1FY26. However, the latest data of October indicate that all bank groups have increased lending rates on fresh loans (WALR_fresh) by 09-18 bps while reduced fresh deposits rates by 04-05 bps
- The WALR on outstanding loans declined by 2 bps as loans bench-marked to MCLR reduced by 1% in Oct'25 from Sep
- The June policy CRR cut by 100 bps, has completed its last tranche on 29 Nov, which has released a total of ~ Rs 2.6 lakh crore liquidity for banks, this may give cushion for banks to lower MCLR 4/5 bps going forward
- **If we look at SCBs balance sheet, banks deposits hold around 78% of the total liabilities and CD ratio comes at ~80% … banks heavily rely on deposits, in particular household deposits to finance loans**
- In our view, it does not look much possible today for banks to lower deposits rates as it may act as a further disincentive for households as they hold around 35% of bank deposits…many banks are forced to offer competitive rates in special term deposits to lure depositors

No of Deposit and loan Accounts in Sep 25		
Type	No in Crores	Amount in Rs Lakh Cr
Total Deposits	242.4	236
Current	8.7	22
Savings	206.2	68
Term	27.5	146
Bank Credit	37.1	190
Source: SBI Research, RBI		



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